500

Education, Training, Employment, and Social Services

Budget function 500 primarily covers spending by the Departments of Education, Labor, and Health and Human Services for programs that directly provide—or assist states and localities in providing—services to individuals. Activities in this function include making developmental services available to children in low-income families, helping fund programs for elementary and secondary school students, making grants and loans to postsecondary students, and funding job-training and employment services for people of all ages.

The Congressional Budget Office estimates that outlays for function 500 will total $92.5 billion in 2005. Discretionary outlays make up almost $80 billion of that total. Largely fueled by the rapid growth in funding for elementary and secondary education, function 500 has experienced sizable increases in discretionary outlays, with total spending climbing by more than 60 percent since 2000. In recent years, education spending has made up about 70 percent of the discretionary outlays in this function. Much of the rest covers training and employment services as well as a variety of social service programs.

Mandatory spending in function 500 consists primarily of subsidy costs for higher education loans, funding for the Social Services Block Grant program, and funding for rehabilitation services and disability research. Mandatory spending varies greatly from year to year because of changes in loan volume, interest rates, and other factors that affect the student loan programs.

Federal Spending, Fiscal Years 2000 to 2005 (Billions of dollars)

	2000	2001	2002	2003	2004	Estimate 2005	Average Annual Rate of Growth (Percent) 2000-2004	2004-2005
Budget Authority (Discretionary)	44.4	61.3	71.3	75.1	78.1	79.6	15.2	1.8
Outlays								
Discretionary	48.9	54.3	62.7	71.2	75.2	78.7	11.3	4.7
Mandatory	4.8	2.9	7.8	11.3	12.8	13.7	27.6	7.5
Total	53.8	57.1	70.5	82.6	87.9	92.5	13.1	5.1

500-01—Discretionary

Reduce Funding to School Districts for Impact Aid

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-129	-131	-133	-136	-138	-668	-1,398
Outlays	-114	-120	-128	-134	-136	-632	-1,352

The Impact Aid program, authorized under title VIII of the Elementary and Secondary Education Act, provides money to school districts that are affected by activities of the federal government. Most of the program's funds are used to make basic support payments to districts for so-called federally connected students (such as those living on Indian land or military bases). Impact Aid funds are also used for construction grants to districts where a significant number of students are federally connected and for assistance to districts in areas where the federal government owns a significant portion of the property tax base, thus depriving those districts of a source of revenue.

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In 2005, approximately 1,300 local educational agencies (LEAs) will receive basic support payments from the Impact Aid program. For a school district to be eligible for those payments, a minimum of 3 percent—or at least 400—of its schoolchildren must be associated with activities of the federal government. The amount of basic support payments a school district receives is based on a formula that considers the district's population of "Type A" and "Type B" students. Type A students are those living on Indian land as well as students living on federal land who have a parent that either is employed on federal land within the school district, is a member of the armed forces, or is employed by a foreign government (working at an embassy, for example). Type B students are those who reside in federally subsidized low-rent housing as well as those not living on federal property who have a parent who is employed by either the armed forces or a foreign government. Type B students also include those who live on federal property but whose parents are not employed on federal property within the school district and those who live with a parent who is employed on federal land within the state containing the LEA; however, districts do not receive payments for such students unless they have 10 percent—or at least 1,000—enrolled.

This option would focus Impact Aid on the school districts that are most strongly affected by federal activities by basing support payments solely on the districts' enrollment of Type A students. Eliminating support for Type B students would reduce federal outlays by $114 million in 2006 and by $632 million over five years.

A rationale for this option is that it is appropriate to restrict Impact Aid payments to cover only students whose presence puts the greatest burden on school districts. An argument against the option is that eliminating payments for other types of students associated with activities of the federal government could significantly harm certain districts—for example, those in which large numbers of military families live off-base but shop at military exchanges, which do not collect local sales taxes.

RELATED OPTION: 050-31

500-02—Discretionary

Eliminate State Grants for Safe and Drug-Free Schools and Communities

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-444	-451	-459	-468	-476	-2,298	-4,810
Outlays	-9	-267	-404	-455	-464	-1,598	-4,045

Grants to the states under the Safe and Drug-Free Schools and Communities Act (SDFSCA) fund programs to discourage violence and the use of illegal substances—such as alcohol, cigarettes, and drugs—among young people in and around schools. States receive SDFSCA funding on the basis of their school-age population and number of poor children. In 2005, that funding totaled $437 million.

States distribute SDFSCA funds to school districts in the form of grants that must be used according to certain guidelines. Although the SDFSCA program stipulates that 93 percent of the funds states receive must go toward activities that address violence and drug abuse in schools, it offers little guidance about what constitutes an effective use of those funds.

In the President's 2006 budget, the Office of Management and Budget assessed the SDFSCA program and recommended that the state grants portion be eliminated. This option would eliminate payments to states under the SDFSCA, saving $9 million in 2006 and a total of about $1.6 billion through 2010.

Proponents of eliminating SDFSCA funding argue that the activities supported by the program do not appear to be effective. Several recent reports concluded that those activities have shown little success in reducing the incidence of violence and drug abuse in schools. Furthermore, although violence and drug abuse in general are pressing societal issues, they are problems that rarely occur on school grounds. Despite the occasional well-publicized incident, studies show that schools are among the safest places in the country, on average, and that drug use occurs infrequently on school property. In addition, rates of violent injury on school grounds have not changed significantly since the SDFSCA was enacted in 1986.

An argument against this option is that prevention efforts such as those funded by the SDFSCA may serve a proactive function by raising people's awareness of the problems of drug abuse and violence. If such efforts were eliminated, drug use and violence might accelerate and lead to even more costly interventions on the part of school systems and communities.

500-03—Discretionary

Fund the Federal Goal of Paying 40 Percent of the Added Cost of Educating a Disabled Child

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	+13,315	+13,769	+14,254	+14,739	+15,216	+71,293	+119,147
Outlays	+4,720	+11,253	+13,737	+14,339	+14,821	+58,870	+105,607

The Individuals with Disabilities Education Act (IDEA) authorizes the federal government to make grants to states to provide special education and related services to students with disabilities. In exchange for receiving that federal funding, states are required to provide a "free appropriate public education" designed to meet the needs of eligible students. Every state participates in the program. During the 2002-2003 school year, an estimated 6.6 million children received IDEA-covered services at an average federal cost of about $1,340 per student.

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For more than two decades, the authorization for this program (which was originally made through the Education for All Handicapped Children Act) has been set to provide each state with a maximum grant of 40 percent of the national average per-pupil expenditure (APPE) for every disabled child it educates.[1] The program has never been funded at a level sufficient to meet that goal. If the program had been funded at the maximum level in 2002, states would have received a payment of $3,135 per disabled child based on an APPE of $7,837 in that year. Even though funding for the program has more than doubled since 1999, its appropriation for 2005 of $10.6 billion represents grants that will provide only about 18 percent of the estimated national APPE.

This option would fully fund the original federal goal of 40 percent with adjustments for 2007 and beyond. Doing so would require an additional $13.3 billion in budget authority in 2006 and a total of $71.3 billion over the 2006-2010 period. Outlays would increase by $4.7 billion in 2006 and a total of $58.9 billion through 2010. Under this option, the appropriation for IDEA grants to states in 2006 would be more than twice the level in the Congressional Budget Office's baseline for that year and would be adjusted annually to reflect estimated changes in the national APPE and in the numbers of children ages 3 to 21 and children of those ages below the poverty line.

Supporters of this option argue that the original federal goal represents a commitment made to the states and should be kept. In their view, school systems are obligated to provide all children with a free appropriate education—which, in the case of children with disabilities, often requires costly equipment and individualized professional attention. Proponents of additional federal support contend that the funds are needed to ensure that school districts can meet those obligations.

Opponents of this option believe that educating children, including disabled children, is a responsibility of state and local governments and that the federal government's involvement should be minimal. They reject the claim that the authorization level represents a federal commitment, viewing that level instead as a ceiling for appropriations. Moreover, critics argue that certain problems with how the current system operates—such as paperwork burdens on school systems and incorrect identification of disabilities (such as learning disabilities) that are more difficult to diagnose—will not be solved by simply increasing federal funding.

1. Beginning in 2007, the rate of 40 percent of the APPE will be adjusted not by the population of disabled children, but by the change in states' overall numbers of children ages 3 to 21 and children ages 3 to 21 living in poverty.

RELATED OPTIONS: 500-04 and 500-05

500-04—Discretionary

Increase Funding for the Education of Disadvantaged Children

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	+9,806	+11,852	+12,062	+12,272	+12,506	+58,499	+123,947
Outlays	+4,776	+10,008	+11,703	+12,130	+12,367	+50,985	+115,996

Title I-A of the Elementary and Secondary Education Act of 1965 authorizes grants to local school districts to fund supplementary educational services for disadvantaged and low-achieving children. The Improving America's Schools Act of 1994 added accountability measures to the Title I-A program that were significantly strengthened by the No Child Left Behind Act (NCLBA) of 2001. Those measures establish annual goals for educational improvement and impose sanctions when the goals are not met. Although the sanctions are intended to help schools improve their performance, the consequence is to increasingly restrict how schools can use their grant funds.

The accountability measures in the NCLBA require that schools that start farthest from the ultimate goal that all children be proficient in reading and math make the greatest annual progress if they are to avoid sanctions, because the annual goals are structured in a way that all schools must reach the final goal by the 2013-2014 school year. Included among those schools that have started the farthest behind are those with large concentrations of disadvantaged children.

The NCLBA authorized Title I-A grants that began at $13.5 billion for 2002 and increase steadily to $25 billion for 2007. However, those grants have been funded below authorized levels. For example, the 2005 funding level was $12.7 billion, compared with the authorized level of $20.5 billion. This option would boost funding for Title I-A up to its authorized level ($22.8 billion in 2006) and thereby increase federal outlays by $4.8 billion in 2006 and by $51 billion through 2010.

A rationale for the funding increase is that for disadvantaged children to catch up to their more advantaged peers will require improvements in educational performance that are unprecedented. To close the gap, schools with high concentrations of disadvantaged children will probably have to dramatically increase both the quality and intensity of the supplemental educational services they provide. Those improvements will require very large increases in resources.

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An argument against the funding increase is that experience with earlier reform plans shows that simply providing more resources may not solve the problem of closing the achievement gap between economically disadvantaged children and their better-off peers. Across schools, the link between the level of resources and the level of academic achievement varies from study to study. Academic achievement may be associated with qualities—such as school leadership and excellent teaching—that cannot be improved by simply providing more resources.

RELATED OPTIONS: 500-03 and 500-05

500-05—Discretionary

Eliminate the Even Start Program and Redirect Some Funds to Other Education Programs

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Spending							
Budget authority	-114	-116	-118	-120	-123	-592	-1,238
Outlays	-3	-96	-114	-118	-120	-451	-1,085

The Even Start family literacy program provides educational and related services to parents who have not finished high school and to their young children. Those services include basic academic instruction and help with parenting skills for the parents and early childhood education for their children, along with supplementary services such as child care and transportation. Under the program, the Department of Education makes grants to states to provide assistance through eligible entities (a local education agency in collaboration with a community-based or other nonprofit organization). During the 2003-2004 school year, the program supported 1,243 entities serving 50,000 families with federal funding that averaged about $5,000 per family. The most recent national evaluation of the program found that roughly one-third of funding supported adult and parenting education and associated support services and another one-third supported early childhood education. The remainder paid for case management, recruiting, evaluation, administration, and other activities. For 2005, federal funding for the program was $225 million.

This option would eliminate grants to states under the Even Start program (which the President's 2006 budget would also do) and redirect half of those funds to other federal early childhood education programs. That change would save $3 million in outlays in 2006 and a total of $451 million over five years.

An argument for this option is that the most recent national evaluation of Even Start did not produce evidence that the program's approach of involving parents in the education of their children is effective. That evaluation included a study that tracked 18 local grantees that randomly assigned 20 new families to an Even Start program providing the full range of services and 10 families to a control group (those families were not allowed to participate in the Even Start program for one year but were free to seek other educational and social programs for which they qualified). Although both groups made gains on literacy and many other measures, the parents and children in the Even Start program did not perform better than the parents and children in the control group. The national evaluation also found that maintaining families' participation in the program and use of its full range of services—which are at the core of the program's philosophy—was a continuing problem. Families in the Even Start program during the 2000-2001 school year used only a fraction of the services available to them. Also, about half of the families who joined Even Start between the 1997-1998 school year and the 2000-2001 school year left the program within 10 months; and, by that time, fewer than one in five families had met their educational goals under the program.

An argument against this option is that other studies have shown that children who participate in programs providing intensive high-quality services make larger cognitive gains while in the program and have better educational outcomes years after leaving the program than those who do not. In addition, research has repeatedly shown an association between family background, including education level and income, and the educational achievement of children. So although direct evidence is not available, it seems plausible that children whose parents have low literacy or little education are more likely to be educationally successful if they receive early childhood instruction themselves and if their parents receive educational services and instruction to help their children learn. Also, those parents may be more motivated to participate in basic education programs for adults and improve their own job prospects if one of the purposes of such programs is to support their children's educational development.

RELATED OPTIONS: 500-03 and 500-04

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500-06—Mandatory

Eliminate the 9.5 Percent Guaranteed Yield on Certain Student Loans

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-205	-215	-215	-220	-225	-1,080	-2,280
Outlays	-145	-195	-195	-195	-200	-930	-1,995

For guaranteed student loans, the federal government ensures that lenders will receive no less than a specific yield. That minimum yield, which is recalculated each year for most guaranteed student loans, was 3.37 percent for the 2004-2005 school year on loans in repayment. For student loans made from proceeds of tax-exempt bonds issued between October 1980 and October 1993, however, the government's guaranteed minimum yield is 9.5 percent. That higher yield on 9.5 percent loans is an added cost to the government.

Although loans financed by newly issued tax-exempt bonds have not received the 9.5 percent guaranteed yield for more than a decade, the outstanding volume of loans receiving that guaranteed yield has increased. At the end of 2004, the outstanding volume of those loans was $17 billion, whereas the original volume of tax-exempt financing associated with that guarantee was about $9 billion.

Lenders have used three methods to slow the decline and even increase the volume of loans that receive the 9.5 percent guaranteed yield.[1] First, after paying principal and interest to bondholders, lenders can reinvest, or recycle, any remaining amounts earned from the loans to make or purchase new loans that, under the law, also receive the 9.5 percent guaranteed yield. Second, lenders can issue a new bond, called a refunding bond, to repay the original tax-exempt bond, and the student loans that the new bond finances will continue to receive the 9.5 percent yield. Furthermore, the refunding bond can have a later payoff date than the original bond so recycling can be extended. Third, a lender can issue a taxable bond to purchase the loans financed by the pre-1993 tax-exempt bond or the refunding bond, and the 9.5 percent loans that the original bonds financed will continue to receive that yield. In addition, the proceeds from the purchase can be used to make additional 9.5 percent loans. That method of transferring loans from tax-exempt to taxable bonds allows lenders to significantly increase the volume of 9.5 percent loans they hold.

Public Law 108-409, which took effect October 30, 2004, prohibits lenders from using refunding and transferring as methods to increase the volume of student loans receiving the 9.5 percent guaranteed yield, but it allows lenders to continue to recycle repayments of existing 9.5 percent loans into new 9.5 percent loans. Those new restrictions are in effect through December 2005. The President's 2006 budget proposes making those restrictions permanent. This option would do the same, and it would eliminate the recycling of repayments into new 9.5 percent loans. Although lenders holding existing 9.5 percent loans would continue to receive that guaranteed yield, they would not be able to maintain or increase the volume of such loans. The yield on all new loans would be the same as on current loans not financed with pre-1993 tax-exempt financing. That change would reduce federal outlays by $145 million in 2006 and by $930 million through 2010.[2]

Proponents of this option contend that the 9.5 percent guaranteed yield, which was chosen at a time of high inflation and high interest rates, is now far more than lenders are normally paid for making loans to students. The current formula for calculating the guaranteed yield is intended to provide lenders with income sufficient to cover their financing, servicing, and administrative costs and to

1. Government Accountability Office, *Federal Family Education Loan Program: Statutory and Regulatory Changes Could Avert Billions in Unnecessary Federal Subsidy Payments,* GAO-04-1070 (September 2004).

2. In addition, this proposal would reduce federal outlays by $670 million in 2005 because of the impact of the restrictions on currently outstanding loans.

give them a reasonable return on their equity investment in those loans.

Opponents of this option point out that it would reduce the government guaranteed yield on some new student loans and, consequently, make lenders less likely to provide additional benefits to borrowers. Those benefits, which lenders pay for by using some of the higher yield they receive on 9.5 percent loans, may include reduced interest rates for borrowers who make a certain number of on-time payments and the rebate of some or all of their loan origination fee at the time the borrower begins repaying the loan. Providing those benefits helps lenders reduce their income from tax-exempt bonds and thus stay below limits specified in the Internal Revenue Code.

RELATED OPTION: 500-09

500-07—Mandatory

Eliminate Subsidized Loans to Graduate Students

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-840	-835	-830	-830	-835	-4,170	-8,555
Outlays	-570	-775	-770	-770	-775	-3,660	-7,725

Federal student loan programs allow students and their parents to borrow funds to pay for students' postsecondary education. Those programs offer subsidized loans to students with proven financial need and unsubsidized loans to students regardless of need. Two programs provide both types of loans: the Federal Family Education Loan Program, in which loans made by private lenders are guaranteed by the federal government; and the William D. Ford Federal Direct Loan Program, in which the government makes loans through schools. Borrowers benefit because the interest rates that they are charged are lower than the rates that most of them could secure from alternative sources. Borrowers who receive subsidized loans benefit further because the federal government forgives interest on those loans while students are in school and for six months afterward.

This option would end new subsidized loans to graduate students in 2005. Under the assumption that those students would then take out unsubsidized loans instead, this option would reduce federal outlays by $570 million in 2006 and by $3.7 billion over the 2006-2010 period. (Under the Federal Credit Reform Act of 1990, the federal budget records all the costs and collections associated with a new loan on a present-value basis in the year in which the loan is obligated.)

A rationale for restricting subsidized loans to undergraduate students is that it would focus student aid funding on what some people believe is the federal government's primary role in higher education—to make a college education available to all high school graduates. According to that rationale, graduate students have already benefited from higher education. An argument against such a shift in funding is that supporting graduate students is an equally important role of the federal government because those students are most likely to make scientific, technological, and other advances that will benefit society as a whole.

Under this option, graduate students who lost access to subsidized loans could take out unsubsidized federal loans for the same amount and still benefit from below-market interest rates. Nevertheless, graduate students often amass large student loan debts because of the number of years of schooling required for their degrees. Without the benefit of interest forgiveness while they were enrolled in school, their debt would be substantially larger when they entered the repayment period because the interest on the amounts they had borrowed over the years would be added to their loan balance. However, the federal student loan programs have several options for making repayment manageable for students who have high loan balances or difficult financial circumstances.

RELATED OPTION: 500-08

RELATED CBO PUBLICATION: *Private and Public Contributions to Financing College Education,* January 2004

500-08—Mandatory

Raise Interest Rates on Federal Student Loans

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-185	-290	-345	-345	-345	-1,510	-3,360
Outlays	-115	-225	-290	-305	-310	-1,245	-2,895

Under the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan Program, students may borrow money for postsecondary education—from lenders and from the government, respectively—at below-market interest rates. The rate that students are charged on loans from those programs during the repayment period equals the interest rate that the government pays on 91-day Treasury bills plus 2.3 percentage points (with the total rate not to exceed 8.25 percent). For the 2004-2005 school year, that rate totals 3.37 percent. Beginning in July 2006, students' interest rate will be fixed at 6.8 percent.

Lenders that participate in the FFEL program usually receive a higher interest rate on federal loans than the rate students pay, with the federal government making up the difference. Lenders receive a rate equal to either the student rate or the interest rate on commercial paper issued by financial institutions plus 2.34 percentage points, whichever is higher. Even if their rate is below market interest rates, lenders are willing to make loans through the FFEL program because the government guarantees repayment.

This option would raise the rate students pay on federal loans from both programs by calculating that rate using the formula for lenders in the FFEL program. The rate for students would still be capped at 8.25 percent, however, and the government would continue to make an additional payment to lenders when the lender-rate formula exceeded that cap. The change to the formula would boost students' interest rate by an average of about 0.26 percentage points on loans originated before the planned interest rate change in July 2006 and by 0.14 percentage points on those originated afterward. This option would reduce federal outlays by $115 million in 2006 and by a total of roughly $1.2 billion over five years.

A rationale for this option is that the higher interest rate would still be lower than the rates available to most students on loans from alternative sources. Furthermore, federally guaranteed student loans have flexible repayment options, and many lenders offer additional benefits not available elsewhere, such as reduced interest rates to borrowers who make a certain number of on-time payments. A potential drawback of this option is that even a small increase in that interest rate would boost the already high costs that many students face for postsecondary education, which could discourage some students from continuing their studies.

RELATED OPTION: 500-07

RELATED CBO PUBLICATIONS: *Estimating the Value of Subsidies for Federal Loans and Loan Guarantees,* August 2004; and *Private and Public Contributions to Financing College Education,* January 2004

500-09—Mandatory

Eliminate the Floor on Lenders' Yield from Federally Guaranteed Student Loans

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Spending							
Budget authority	-1,390	-1,855	-1,990	-2,115	-2,220	-9,570	-22,180
Outlays	-820	-1,510	-1,725	-1,840	-1,940	-7,835	-18,900

Under the Federal Family Education Loan (FFEL) Program, which guarantees loans made by lenders to eligible students, borrowers pay lenders an interest rate (called the student rate) that is determined once a year according to a formula set in law. The interest rate that lenders receive is based on a target rate that is calculated quarterly using another legislated formula. If that calculated rate is greater than the student rate, the federal government pays lenders an additional amount in that quarter. If that rate is less than the student rate, the government does not make any additional payments. In effect, the student rate is a floor below which a lender's return cannot fall.

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This option would eliminate the floor on the interest rate that lenders receive. If the calculated interest rate exceeded the student rate, the government would pay lenders as it does now. But if the calculated rate was less than the student rate, lenders would be required to rebate the difference to the government. That change would reduce federal outlays for the FFEL program by $820 million next year and by a total of $7.8 billion over the 2006-2010 period. The President's 2006 budget proposes an alternative method of reducing payments to lenders: each year, lenders would rebate to the government 0.25 percent of the outstanding volume of FFEL loans they held (excluding consolidation loans).

An argument for this option is that the lender-rate formula is designed to approximate a fair market return to lenders. From that perspective, lenders now earn an above-market return during quarters when the calculated interest rate is below the student rate. Moreover, compared with other ways of lowering lenders' returns, this option might be preferable to many lenders because it would continue to closely tie their interest income to their interest expenses.

An argument against this option is that the lender-rate formula has been adjusted downward several times in the past decade, which has squeezed the profit that lenders can make from participating in the FFEL program. Further reductions might induce some lenders to leave the program.

RELATED OPTION: 500-06

RELATED CBO PUBLICATIONS: *Estimating the Value of Subsidies for Federal Loans and Loan Guarantees,* August 2004; and *How CBO Analyzes the Sources of Lenders' Interest Income on Guaranteed Student Loans,* June 2004

500-10—Discretionary

Eliminate Administrative Fees Paid to Schools in the Campus-Based Student Aid and Pell Grant Programs

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-144	-146	-149	-151	-154	-744	-1,557
Outlays	-17	-140	-146	-149	-152	-604	-1,404

In several federal student aid programs, the government pays schools to administer the programs, distribute the funds, or both. One type of program, campus-based aid, includes the Federal Supplemental Educational Opportunity Grant Program, the Federal Perkins Loan Program, and the Federal Work-Study Program. The government distributes funds for those programs to institutions, which in turn award grants, loans, and jobs to qualified students. Under a statutory formula, institutions are allowed to use up to 5 percent of those program funds for administrative costs. In another program, the Federal Pell Grant Program, schools also distribute federal funds, but eligibility is determined by federal law rather than by the institutions. The law provides for a federal payment of $5 per Pell grant to reimburse schools for some of their costs of administering that program.

Budget authority would be reduced by $117 million in 2006 if schools were not allowed to use federal funds from the campus-based aid programs to pay administrative costs. It would be reduced by another $27 million if the $5 payment per grant to schools in the Pell Grant program was eliminated. Together, those changes would save a total of $604 million over the 2006-2010 period. The President's 2006 budget proposes to stop disbursements of new Perkins loans and, consequently, the payment of related administrative fees to schools.

Arguments can be made both for eliminating those administrative payments and for retaining them. On the one hand, schools benefit significantly from participating in federal student aid programs even without the payments because the aid makes attendance at those schools more affordable. In 2005, students at participating institutions will receive an estimated $15 billion in funds under the Pell Grant and campus-based aid programs. On the other hand, institutions incur costs to administer the programs. If the federal government did not pay those expenses, schools might simply pass along the costs to students in the form of higher tuition or lower institutional student aid.

500-11—Discretionary

Eliminate the Leveraging Educational Assistance Partnership Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-67	-68	-69	-70	-71	-345	-722
Outlays	-13	-67	-68	-69	-70	-288	-660

The Leveraging Educational Assistance Partnership (LEAP) program helps states provide financially needy postsecondary students with grants and work-study assistance while they attend academic institutions or vocational schools. States must match federal funds at least dollar for dollar and also meet maintenance-of-effort criteria (minimum funding levels based on funding in previous years). Unless excluded by state law, all public and private nonprofit postsecondary institutions in a state are eligible to participate in the LEAP program.

This option, which was also included in the President's 2006 budget, would eliminate the LEAP program, reducing federal outlays by $288 million over five years. The extent to which financial assistance to students declined would depend on the responses of the states, some of which would probably make up at least part of the lost federal funds.

A rationale for this option is that the LEAP program is no longer needed to encourage states to provide more student aid. When the program was first authorized in 1972 (as the State Student Incentive Grant Program), only 28 states had student grant programs; now, all but two states have need-based student grant programs. Moreover, states currently fund the program far in excess of the level to which federal matching funds apply.

An argument against eliminating the LEAP program is that not all states would increase their student aid appropriations to make up for the lost federal funds and some might even reduce them. In that case, some of the students who received less aid might not be able to enroll in college or might have to attend a less expensive school.

RELATED CBO PUBLICATION: *Private and Public Contributions to Financing College Education*, January 2004

500-12—Discretionary

Reduce Funding for the Arts and Humanities

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-340	-365	-405	-445	-480	-2,035	-5,060
Outlays	-255	-330	-385	-425	-465	-1,860	-4,815

The federal government subsidizes various activities related to the arts and humanities. In 2005, combined funding for several programs totaled nearly $1.5 billion; it comprised federal appropriations for the Smithsonian Institution ($615 million), the Corporation for Public Broadcasting ($467 million), the National Endowment for the Humanities ($138 million), the National Endowment for the Arts ($122 million), the National Gallery of Art ($102 million), and the John F. Kennedy Center for the Performing Arts ($33 million).

Cutting funding for those programs by 20 percent of their 2005 appropriations and holding spending at that nominal level would reduce federal outlays by $255 million in 2006 and by $1.9 billion over the 2006-2010 period relative to the current funding level after adjusting for inflation. The actual effect on arts and humanities activities would depend in large part on the extent to which other funding sources—states, localities, individuals, firms, and foundations—changed their contributions.

Some proponents of reducing or eliminating funding for the arts and humanities argue that support of such activities is not an appropriate role for the federal government. Other advocates of cuts suggest that the expenditures are particularly unacceptable when programs addressing central federal concerns are not being funded fully. Some federal grants for the arts and humanities already require nonfederal matching contributions, and many museums charge or suggest that patrons pay an entrance fee. Those practices could be expanded to accommodate a reduction in federal funding.

However, critics of cuts in funding contend that alternative sources would be unlikely to fully offset the drop in federal subsidies. Subsidized projects and organizations in rural or low-income areas might find it especially difficult to garner increased private backing or sponsorship. Thus, a decline in government support, opponents argue, would reduce activities that preserve and advance the nation's culture and that introduce the arts and humanities to people who might not otherwise have access to them.

500-13—Discretionary

Eliminate the Senior Community Service Employment Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-443	-450	-458	-467	-475	-2,293	-4,799
Outlays	-80	-435	-451	-459	-468	-1,894	-4,363

The Senior Community Service Employment Program (SCSEP) funds part-time jobs for people ages 55 and older who have low income and poor employment prospects. To participate in the program in 2004, a person had to have annual income of less than $11,638—or 125 percent of the federal poverty level for someone living alone. SCSEP grants are awarded to nonprofit organizations, the Forest Service, and state agencies. Those organizations and agencies pay participants to work in part-time community service jobs, up to a maximum of 1,300 hours per year.

In 2004, approximately 100,000 people participated in the SCSEP, working in schools, hospitals, and senior citizens' centers and on beautification and conservation projects. Participants are paid the federal or state minimum wage or the local prevailing wage for similar employment, whichever is higher. They are also offered annual physical examinations, training, personal and job-related counseling, and assistance to move into unsubsidized jobs when they complete their projects.

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This option would eliminate the SCSEP, saving $80 million in outlays in 2006 and $1.9 billion through 2010. An argument in favor of this option is that the costs of providing the services now supplied by SCSEP participants could be borne by the organizations that benefit from their work; under current law, those organizations usually must bear just 10 percent of such costs. Shifting those costs would increase the likelihood that only the most highly valued services would be provided. An argument against this option is that eliminating the SCSEP, which is the major federal jobs program aimed at low-income older workers, could cause hardship for some people. In general, older workers are less likely than younger workers to be unemployed, but those who are unemployed take longer to find work.

500-14—Discretionary

Eliminate Funding for the National and Community Service Act

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-560	-575	-605	-620	-640	-3,000	-6,480
Outlays	-135	-325	-425	-490	-525	-1,895	-4,950

The National and Community Service Act authorizes funds for the AmeriCorps Grants Program, the National Civilian Community Corps (NCCC), Learn and Serve America, and the Points of Light Foundation; AmeriCorps receives the majority of the total appropriations. Students and other volunteers participating in those community service programs provide assistance in the areas of education, public safety, the environment, and health care, among others. State and local governments and private enterprises contribute additional funds to AmeriCorps to carry out service projects that, in many cases, build on existing federal, state, and local programs. AmeriCorps and NCCC provide participants with an educational allowance, a stipend for living expenses, and, if needed, health insurance and child care. Learn and Serve America participants generally do not receive stipends or educational awards. The Points of Light Foundation is a nonprofit organization that promotes volunteer activities.

Eliminating federal contributions for programs funded under the National and Community Service Act would save $135 million in outlays in 2006 and $1.9 billion through 2010 relative to current appropriations adjusted for inflation. (The estimates include costs associated with terminating the programs.) Alternatively, some of the savings from eliminating the programs could be redirected to the Federal Pell Grant Program, which more closely targets assistance to low-income students.

One argument for eliminating the programs is that community service should be voluntary rather than an activity for which a person is paid. An additional justification for this option is based on the view that the main goal of federal aid to students should be to provide access to postsecondary education for people with low income. Because participation in the programs is not based on family income or assets, funds do not necessarily go to the poorest students.

A major rationale for maintaining the programs is that they provide opportunities for participants to engage in national service, which can promote a sense of idealism among young people. In addition, the participants provide valuable services to their communities.